RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

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Feb. 7, 1990 **LETTER 1036**

Jan. 26 DJIA 2559.23; PTI 3268; A-D Ratio -10.02
Feb. 2 DJIA 2602.70; PTI 3266; A-D Ratio -9.90
Dow Yield: 3.85%; Dow P/E: 11.4; DowPow: 457
Dow Book Value: 1075; Dow 200-day MA: 2625
Percentage of Undervalued Blue-chips: 21%
PTI 89-day Moving Average: 3280

THE MARKET: On January 25 the Dow closed at 2561.04. The decline took the Dow below its October 13, 1989 crash low of 2569.24, thereby confirming the prior bearish indications of the Transportation Average. Taken together, the action of the two Averages has signaled that a primary bear market is now in force. (Note: The critical **2569** level was emphasized in the last Letter.)

Remarkably, on the same day (January 25) my Primary Trend Index (PTI) broke below its 89-day moving average. The position of the PTI, below its moving average, confirms the reading of the Averages. Both the Dow Theory and the PTI have now given bear signals.

It is also notable that almost all the major price indicators are now positioned below their 200-day moving averages. These include the Dow, the Transports, the S&P 500, the NYSE Composite, the Value Line Composite, the NASDAQ, the Amex, and the broadest index of all, the 6,000-stock *Investor's Daily* Index.

Question: Russell, how far do you think this bear market could carry, and how long could it last?

Answer: According to Dow Theory neither the duration nor the extent of a primary move can be predicted in advance. However, as you know from past Letters I view the entire area from the October 1987 Dow peak to the January 1990 Dow peak as one huge, complex, deceptive market TOP. During the formation of that top we have seen some of the most flagrant speculation (both in the market and the economy) in modern history.

Furthermore, over the past few years, stock values, on the basis of the return on investment (yield), had reached the "thin ice" stage. Finally, a psychology of stubborn optimism had overtaken the markets with many leading economists and analysts announcing that "the business cycle has finally been conquered." I view all of the above as negatives for the market, particularly for the long-term.

My own view, considering all that has gone before, is that a particularly difficult and extended bear market could be in the offing. To make matters more difficult, no bear market in modern history has ever started with the US in the kind of debt-logged condition that it is today. If the US economy is fated to contract, the mountain of debt will loom as one of the giant headaches of the 1990s. (Note: The generally accepted figure is that the US in all areas, private, corporate, and government, has built up total debt to a level of about $9 trillion.)

Question: How much credence will you give to your PTI in the period ahead?

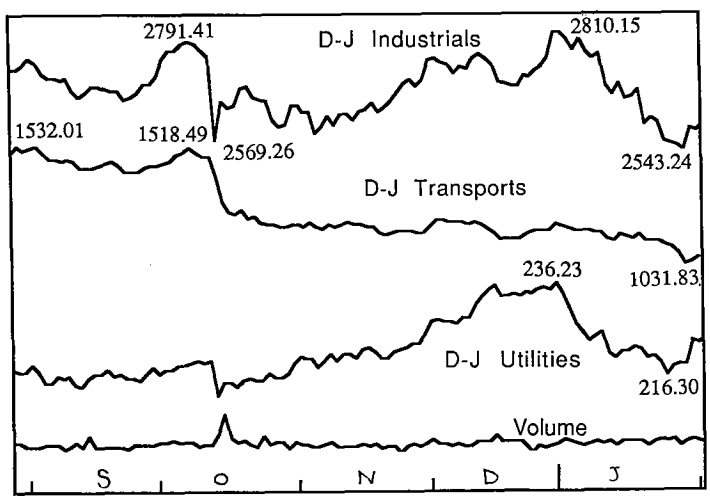
Answer: The PTI takes on a particular importance now. The reason I say this is because of "program trading." A small group of institutions are now capable of manipulating the market on a daily and an intra-day basis for their own advantage. I have spoken to a number of veteran traders about this, and almost to a man they detest what is happening. One veteran trader told me that he finds the NYSE "the most rigged market I have ever dealt with." But, of course, any manipulation on the Exchange can only affect the daily action and not the overall primary trend. At any event, with the advent of program trading, it's come to the point where you must actually wait until a few minutes before the close of trading to find out whether the market will be up or down.

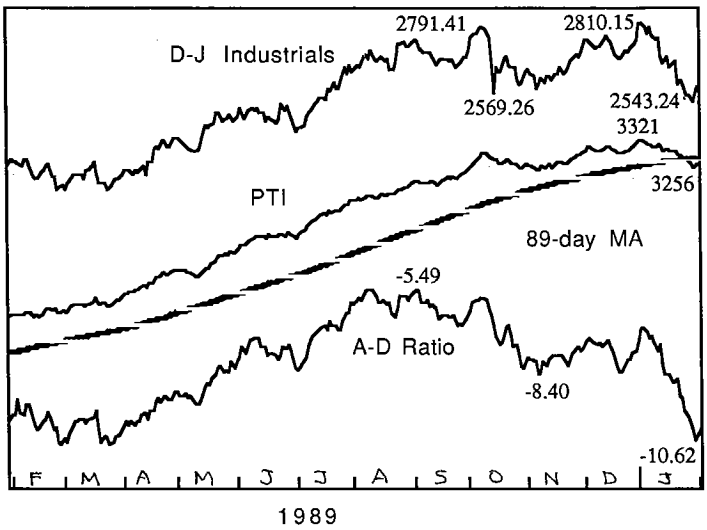
The easiest place for program traders to work is in the area of the big capitalization stocks. This is an area where the movement of a few stocks can run the Dow up or down 15 or 20 points in a period of a few minutes. All of which means that on an intra-day basis there can be a lot of deception in the movement of the stock averages.

Note, however, that it is considerably harder to move 500 or 1,000 stocks than it is to move a few big, blue-chip stocks. Therefore, the action of the advance-decline ratio becomes increasingly important today. And my PTI, which is composed of eight different indicators (each based on market action), is almost impossible to manipulate. For example, on a day when the Dow is up 20 points it is entirely possible for the PTI to be down. Thus the PTI, more than any device that I know of, is capable of pointing to the true, underlying direction of the market. So program trading, in my thinking, has made the PTI more valuable than ever.

Technical notes: My old friend (I've been exchanging ideas with him since 1961) Joe Granville is performing a valuable service in tabulating the number of NYSE issues situated within one point or less of their 52-week lows. Joe's latest tabulation -- 675 NYSE stocks now in the "danger zone," and that's a new high for this count.

Upside and downside volume days of 90% or more are rare and very significant. These are days when 90% of the volume on the NYSE is on either the upside or the downside. On January 12 and again on January 22, 90% of NYSE volume was on the downside. As a rule, these 90% downside days come in a cluster of two or more. The 90% volume days define the momentum and direction of the market -- in this case DOWN. As a rule, following 90% down-volume days, the market will not reverse importantly to the upside until a 90% upside-volume day appears.





During primary bear markets many of the technical devices, particularly the oversold indicators, fail to work the way they do in a bull market. Thus, odd-lot shorts, put/call ratios, stochastics, etc. can be very deceptive during a true primary bear market. So be careful, and remember that "oversold" in primary bear market can be far more severe than in a bull market.

Further thoughts: The market crashed in October 1987. It crashed again in October '89. Each time, following the crashes, the Dow and many of the major averages recovered to new highs. Since January 2, 1990 the stock market has been sinking. I think stock buyers (both the pros and the public) have become conditioned to the idea of crash-collapses followed by recoveries to new highs. This syndrome seems to have become imbedded in the psyche of share-owners, and I'm afraid this "conditioned thinking" is going to cost stockholders a lot of money. Why? Because they will tend to sit with their stocks. In other words, they will hang on to their stocks until they are literally knocked out of the market by the bear.

Next thought: The public has been a huge buyer of bonds (particularly municipal bonds) for a number of years, purchasing bonds mainly through the mutual funds. So indirectly the public is now up to its neck in bonds. Over the past six months almost every economist, advisor, brokerage house, and letter-writer literally guaranteed that the US economy was heading for a "soft landing," a landing that would send interest rates down and bonds higher. I wrote over and over again that I had never seen such a market consensus, such an orgy of conventional wisdom.

The public bought the consensus bond forecast hook, line, and sinker. It was bad advice. Since last August the bonds have been declining. I've warned over and over again about the bond situation, and sad to say, my advice has proved correct. The bond market has been a disaster.

Last week, the RJR Nabisco bond series (the RJRs are generally believed to be the cream of the junk bond crop) fell apart, a few of the RJRs smashing as much as 10 points in a day! The collapse of the junk bonds has triggered billions of dollars of losses in "high yield" bond funds, insurance company portfolios, and in pension plans (all big investors in "junk" bonds).

Economy: So far, we've been experiencing the worst of both worlds -- a sliding economy with interest rates rising. But if you'll remember, for months we were told via every conceivable form of communication that "the economy will slow but there will be no real recession." Now, with a primary bear market in place, I'd have to bet on a real recession in our future.

A recession with contracting tax receipts (tax receipts always drop off during a recession) would mean a massive rise in the federal budget deficit. How would the dollar react to this? Not too well. A run on the dollar? Possibly. Anyway, the thought of a recession, a sliding dollar, rising interest rates, and a declining stock market is enough to give one pause. If it doesn't, it should.

DAILY NEWS AND THE PRIMARY TREND: In the last Letter I wrote a good deal about the three trends in the market with special emphasis on the meaning of the primary trend. Again, I repeat, it is absolutely crucial for your understanding of the market to realize that the primary trend cannot be changed or ended or reversed by some kind of manipulation.

In other words, the primary trend of the market is a tidal force, comparable to the tide of the ocean. Look at it this way: there are big waves and there are little waves, but when the ocean's tide is coming in it doesn't matter what the size of each individual wave is -- it's the tidal direction that counts.

Exactly the same principle applies to the stock market. Each day I read that "if the Fed would only lower the discount rate" or if "the Japanese would just step up their buying of US Treasury bonds" or "if Mr. Bush could just muster enough votes to lower the capital gains tax" or "if they'd just get rid of program trading" then "the market could get out of its rut and head upward again."

The people who make these statements simply do not understand the concept of the primary trend. But I insist that my subscribers understand that concept. **A thorough comprehension of the primary trend is probably the most valuable piece of information you will ever get from these Letters** -- and I do not make that statement lightly.

Once the primary direction is confirmed, once the Dow Theory signals that the primary trend is down, you can ignore all bounces, upward corrections, minor nonconfirmations, good news, presidential promises, constructive congressional bills, positive money supply figures and what have you. Once the primary trend is confirmed as down, it is only a matter of time before the market will head down -- down and down until the worst that can be seen ahead is fully discounted in the price structure. Of course, the exact opposite applies when the primary trend is up and a bull market is confirmed.

THE 200-DAY MOVING AVERAGE: The 200-day moving average is one of the oldest tools in a technician's armory. But it is a tool that I have found to be of utmost value. How does one use the 200-day MA?

The original use of the 200-day MA was in conjunction with the D-J Industrial Average, and I still give the Dow/MA relationship a top spot when analyzing the stock market.

Here's the rationale. The Dow is basically made up of investment-grade stocks, the type of stocks that informed investors buy. A 200-day moving average represents roughly 40 weeks of market action. The position of the Dow above or below its 200-day MA tells us something about what informed investors are willing to pay for investment-grade stocks.

Normally, during the course of a primary bull market values will increase. As the bull market progresses investors will be willing to pay more and more for the Dow stocks, and in the process the 200-day MA will tend to rise. Furthermore, in a bull market the Dow will tend to fluctuate and hold above its rising 200-day MA.

As the bull market moves along there will be many dips and corrections, but only the most severe secondary corrections will take the Dow below its MA. The exact reverse holds true during a primary bear market.

On January 22 the Dow broke below its 200-day MA for the first time since early 1988. That meant that for whatever reason, informed investors on January 22 were willing to pay LESS for the Dow than they were at any time during the average of the last 200 days.

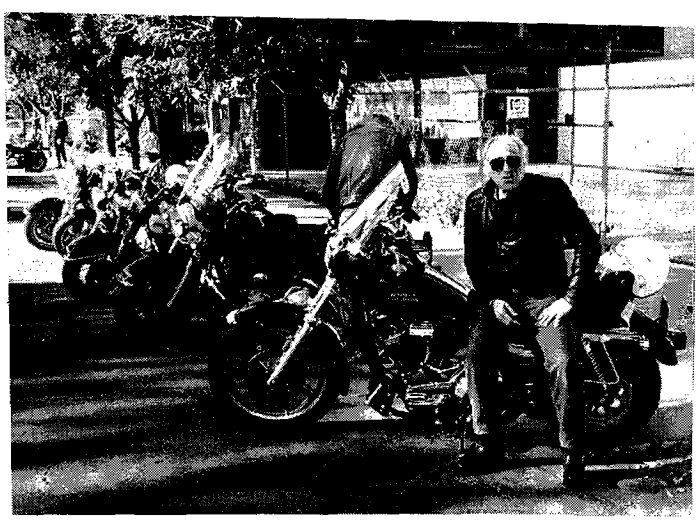
That's a significant fact. Why, did investors pick January 22 as the day when they decided that the Dow was worth less than at any time during the average of the past 40 weeks? I don't know, and neither does anyone else. But the important point is that on January 22 the perceptions of informed investors changed.

Now this is important. **There is no more powerful force in the market than the steady buying or selling of INFORMED investors.** Thus, when the Dow broke below its MA on January 22 I took this as very significant action. If the bear market is to continue, we can expect the Dow to remain below its 200-day moving average except during the most explosive upward corrections.

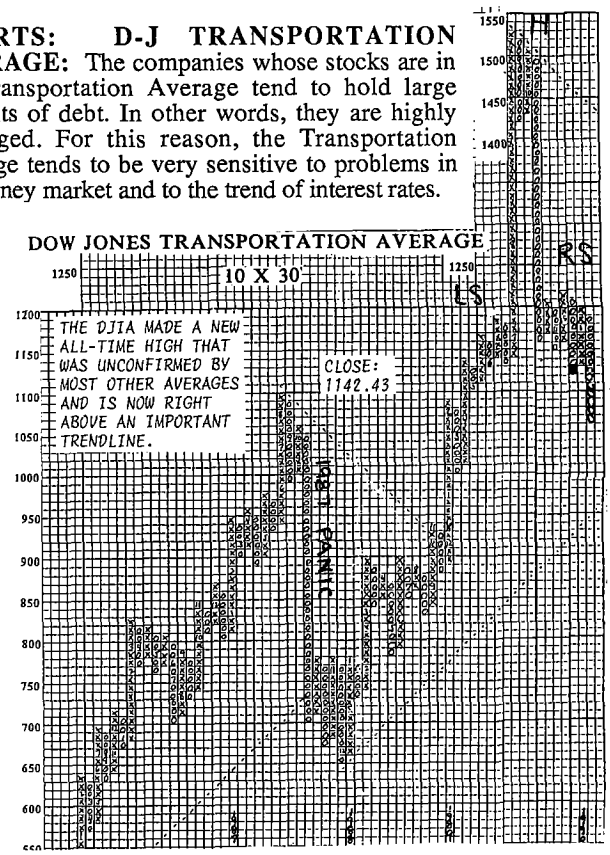
INVESTMENT POSITION: The bear is in the box. Dow Theory put him there. My PTI put him there. I would have liked to put him there a few months ago, but I didn't have the proof. So instead, I repeated ad nauseum that I didn't like this market and that I personally was on the sidelines. So I may have looked overly cautious (or even stupid) for a few months, but I guess I appear less stupid now.

US debt keeps building up, and last week the dollar broke to a new low. So here's an idea whose time may have come. It's the European Currency Unit known as ECU. The ECU is made up of a basket of 12 foreign currencies, the largest percentages being the German mark (30.1%), the French franc (19.0%), British pound (13%), Italian lira (10.1%), Netherlands guilder (9.4%). The ECU is an interesting investment and some two-year AAA-rated ECU paper recently was paying as much as 9.5%. The ECU is a good hedge against the dollar, and unlike gold it pays interest. Be careful, though, various corporations issue bonds in ECUs and ratings on these may vary. Check with your broker on what's available in ECUs; if he or she doesn't know about them, I know Merrill makes a market in ECUs. As mentioned before, Shearson Lehman offers investments in any of four foreign currencies via their no-load Currency Portfolio fund. I've already put money in marks.

WHAT DO YOU DO when the PTI turns down, and the going gets tense? I do what I've done for decades. I go out riding with a bunch of Harley motorcycle nuts. Here I am on an early Sunday morning a few weeks ago. And no, I'm not trying to pass as Malcolm Forbes. I was riding bikes (started in '46) when Malcolm was still trying to figure the difference between a Rolls and a Bentley.



CHARTS: D-J TRANSPORTATION AVERAGE: The companies whose stocks are in the Transportation Average tend to hold large amounts of debt. In other words, they are highly leveraged. For this reason, the Transportation Average tends to be very sensitive to problems in the money market and to the trend of interest rates.


DOW JONES TRANSPORTATION AVERAGE
10 X 30
THE DJIA MADE A NEW ALL-TIME HIGH THAT WAS UNCONFIRMED BY MOST OTHER AVERAGES AND IS NOW RIGHT ABOVE AN IMPORTANT TRENDLINE.
CLOSE: 1142.43
RS
US

Obviously, the Transports are also highly sensitive to forthcoming trends in sales and shipping.

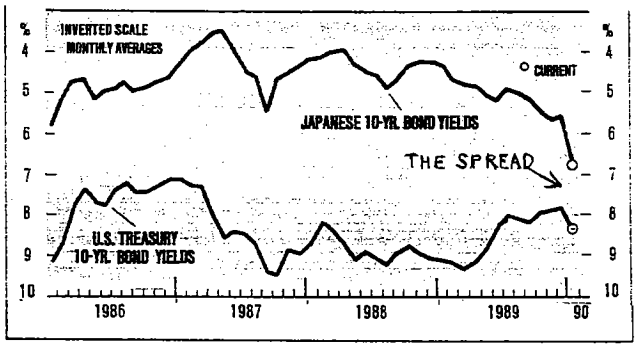
I've been warning about the abysmal action of the Transportation Average in almost every Letter since last October. Just why the Transports have been acting so poorly may be an academic question at this point. But the fact is they have been acting terribly, and I've offered the opinion that "the Transports are through for the duration -- they've topped out." I added that "if that is true, then by definition we are in a primary bear market."

I include, just above, a point & figure chart of the D-J Transportation Average (chart courtesy of *Chartcraft,* New Rochelle, NY). I must say this is one of the worst looking P&F charts I've ever dealt with. Here we see the first panic break in October 1987. This was followed by a rush to new record highs with the P&F chart showing a surge to the 1530 box. Next, a high-level consolidation took place, followed by a crushing decline down to 1170. Following this, the Transports rallied to 1220 and then worked sideways.

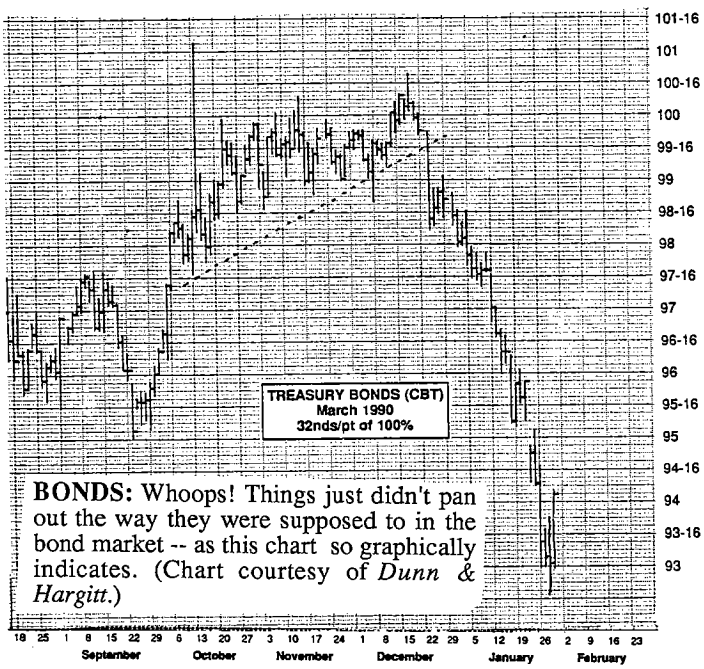
At this point the formation assumed the pattern of a huge head-and-shoulders top with the head being the spike advance to 1530. The right shoulder was formed by the rise to 1220. In December the Transports declined to 1130 (solid black box), and this completed the head-and-shoulders top formation. From there the Transports rallied weakly once more -- then broke to new lows.

P&F enthusiasts often make use of a measurement or count when estimating the potential for a move following a buy or sell signal. I've never decided just how much credence to give to a P&F count, but for my own interest I do take the measurement. Suffice it to say that using the "vertical count" technique, the downside potential for the Transports measures slightly over 1000 points. Measuring from the Transport peak of 1530, this gives the Transports the potential to decline to around 530 -- a loss of roughly two-thirds of their peak value. Could that happen? The old Wall Street adage states "The market can do anything." It's an adage worth remembering.

BOND SPREAD: This is a very significant chart. It shows the spread between the US long bond and the Japanese long bond. As

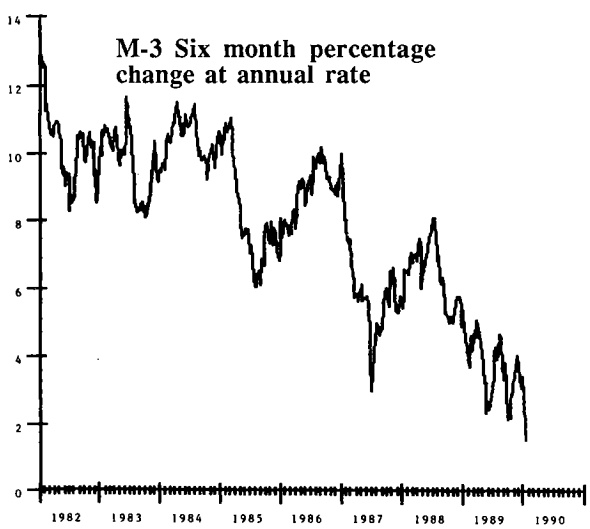


you can see, the spread has narrowed -- dangerously. Why do I say "dangerously"? I say it because the spread is now narrow enough so that the Japanese are safer buying their own bonds (or German bonds) and avoiding losses on T-bonds via a weak dollar.



BONDS: Whoops! Things just didn't pan out the way they were supposed to in the bond market -- as this chart so graphically indicates. (Chart courtesy of *Dunn & Hargitt.*)

MONEY SUPPLY: This chart (courtesy of Ed Hyman of *C.J. Lawrence*) shows that the growth rate of the M-3 money supply is now at a record low. It's amazing that with the growth rate for the broad M-3 this low, inflation is still high at 4.5% (actually, I think it's considerably higher, and I suspect Fed Chairman Greenspan does too). At any rate, this chart does not bode well for either the market or the economy.



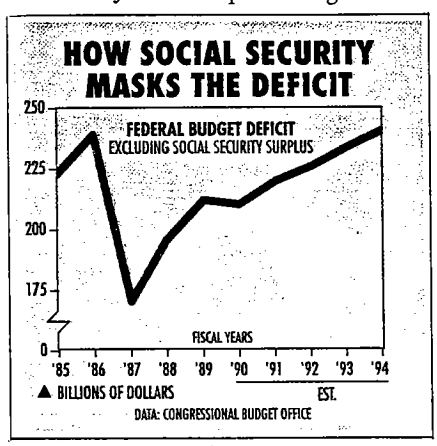
NOTES & QUOTES: My reaction to Bush's State of the Union speech -- Bush told everybody what they wanted to hear. The speech was a mixture of sweet dreams, fantasies, deceptions, and pats on the (Bush's) back. The delivery was good. The sound was sincere. The spirit well-meaning. The truth (particularly on Social Security) was lost. My general reaction -- yawn. Second reaction -- Please, someone, give us the truth about what's happening, please!

* *

The much touted S&L bailout seems to have ground to a virtual halt. The Resolution Trust Corp. is the new agency which has the job of disposing of the nation's 600 failed thrifts and $150 to $300 billion in distressed assets. But with tough restrictions placed on the industry by Congress, few people want to own an S&L. In the last 10 weeks, the RTC has sold only four smallish S&Ls. Meanwhile, the cost of the S&L mess is rising at the rate of an additional $14 million a week. Chairman Seidman is complaining that his agency needs more money if it is to operate correctly. The whole thing is getting kind of expensive.

* *

On January 26 President Bush presented his new 1.23 trillion "budget." As usual, you need a lie detector to figure out what it is all about. There was a $7 billion actual INCREASE in the military budget (hey, that's lower than the inflation-rate increase, isn't it?), and 34% of the receipts are to come from robbing the Social Security trust. Budget Director Darman warned that there wasn't any "peace dividend," even though Congress has already come up with plans for spending the fantasy peace dividend 50 times over. Upon arrival, the so-called Bush budget was immediately trashed by a nonreceptive Congress.


HOW SOCIAL SECURITY MASKS THE DEFICIT
FEDERAL BUDGET DEFICIT EXCLUDING SOCIAL SECURITY SURPLUS
FISCAL YEARS
'85 '86 '87 '88 '89 '90 '91 '92 '93 '94
BILLIONS OF DOLLARS
EST.
DATA: CONGRESSIONAL BUDGET OFFICE

* *

On January 24 our Treasury announced that the US federal deficit widened to $14.64 billion, up $3 billion from December '88. What happened? Well, tax receipts dropped 9.2% due to lousy business. My guess is that tax receipts are going to continue dropping, so that the real deficit for 1990 is going to spin off into space -- way, way over $200 billion.

Then there's something else I don't like. Oil imports are going up, and up. According to the Energy Information Administration, in 20 years we could be importing two-thirds of our oil. Meanwhile, the Petroleum Institute reports that in 1989 US oil production fell by more than half a million barrels a day, the largest annual decline on record, leaving US domestic oil output at its lowest point in 26 years.

* *

Gorbachev: The world is watching (amid a rumor a day) to see if Gorby can keep his job. The fact is the Soviets are in such disarray that nobody wants Gorby's job. The conservative wing of the Soviets has been discredited ever since the sloppy Brezhnev era. And the military is out of favor because of the Afghanistan disaster (mothers now openly complain when their sons are drafted). All of which leaves -- Gorby.

* *

Japan Inc. According to the Japan Industrial Robot Association, Japan employs 68% of the world's robots, 175,000 compared with the US total of 33,000. . . . Small US technology firms are increasingly turning to Japan for capital. But there's a catch, as noted by Jerry Caulder, CEO of Mylogen Corp, who states, "The US is the colony of technology for the rest of the world. They take

our technology, convert it into finished goods, and sell it back to us."

* *

Chicago has never met a superlative it didn't like. The "windy city" already has the world's tallest building in the Sears Tower. But now a new 125-story building (15 stories taller than the Sears Tower) is being planned by Miglin-Beitler Developments. It will be 1,950 feet high, and the cost will be half a billion dollars. By the way, the Sears Tower was recently put on the auction block, but Sears couldn't find a buyer.

* *

Computer world: Before you consider becoming a travel agent consider this: In coming years the travel business could be hit hard (murdered may be the word) by citizens using computers on modems. The home computers will provide all the information now supplied by travel agents, including plane schedules, hotel accommodations, maps of cities, lists of restaurants, availability of entertainment, etc.

* *

In a word, the Japanese insurance companies are HUGE. Nippon Life has assets of $164 billion and owns in its portfolios 3% of all the shares on the Tokyo stock exchange. Yet, the insurance companies do very little in trading. Says Shigeru Noma, head of Nippon Life's international stock department, "We buy and hold and hope."

* *

According to the book "Barbarians at the Gate, the Fall of RJR Nabisco," by Burroughs and Helyar, F. Ross Johnson (CEO of RJR Nabisco) led a good life, or at least his company did. He had a fleet of 10 corporate planes (known as the RJR air force). Johnson kept two corporate maids on the payroll, billed two dozen country club memberships to the company, and doled out millions of dollars to sports celebrities for golfing with his big customers and for showing up at RJR-sponsored sports events. RJR also owned more than a dozen corporate houses and apartments. Johnson's "golden parachute" after the Kohlberg-Kravis takeover was $53 million. All in all I'd call that a good life, wouldn't you?

* *

Population: The world population is exploding. I know all these people will fit somewhere, and somehow a goodly portion of them will get fed. The question I ask myself (seriously) is where do we put all the garbage? The World Bank puts the current world population at 5.3 billion and estimates that it will grow to 8.4 billion in 2025. Asia now accounts for 60% of world population, but Africa is the fastest growing continent. Africa has 11% of world population now, and will have 19% by 2025. During the same period Europe's population will decline from the current 16% to 10%. The US will decline from the current 14% to 12%. Good luck, world, you'll need it.

* *

When Faye and I went to London last summer we were not enamored with the cooking. Now we're backed up by Calvin Trillin, author of three books on eating. Of Britain Trillin says, "I lived in London 30 years and almost starved to death. The British idea of cooking was to stuff something with something else and cover it all with a lava-like sauce." But don't despair. Trillin says that now England is being helped by being in the common market, and it's getting better. "Still," he adds, "in London I often eat in Indian or Chinese restaurants." Faye and I concur. Our best meal in London was in a Chinese restaurant called Poon's.

* *

A subscriber has sent me a real estate circular from Oregon. The prices (compared with S. California prices) are terrific. Homes in good areas of Portland with three and four bedrooms run $140,000 to $250,000, one-third of what they would cost here in my neck of the woods.

* *

Sad Statistics: 42% of all rapes are done by men who are acquaintances of the female victim. . . .70% of all sexual abuse of children is committed by professionals or people who work with children. Nearly all the rest of the child abuse incidents are committed by males who live with unmarried mothers. Only 1% of the cases have to do with natural parents. . . .52% of all child deaths are due to car accidents caused by drunken parents. . . . Half of all marriages in the US end in divorce. How about second marriages? Do they fare any better? Do people learn? No. The figures show that 60% of all second marriages end in divorce.

* *

How's real estate in Gotham? This piece from *Crain's New York* (Jan. 15) is an eye-opener:

> New York's residential cooperative market is heading into a crisis that could bankrupt dozens of building sponsors and threaten the equity of thousands of co-op owners.
>
> The turmoil, at best, is expected to last two years and could further depress co-op prices by dumping distressed units on the market. Ultimately, the issue may engulf banks, managing agents and real estate brokers.
>
> The crisis centers on buildings that have been converted during the past five years and in which the sponsor still owns a majority of the units.
>
> As the market for co-op sales has dried up, some of these sponsors have found it difficult to carry increasingly heavy maintenance payments on these units. A few sponsors have already defaulted on their obligations and had their units seized by banks and co-op boards. Others are surely on the way.
>
> "All the signs indicate that this is going to be a disaster," says Richard S. Fischbein, a partner in Fischbein Badillo, a law firm that represents co-op boards.
>
> Unit owners in buildings where sponsors have stopped making payments face the prospect of being hit with big special assessments to help pay the mortgage and maintain essential services. But buildings in which there are too few unit owners to carry these costs might be forced to default on the building's underlying mortgage, something that hasn't happened in New York since the Depression. Such a default would wipe out the equity of the co-op's shareholders.
>
> "There has never been a situation where the co-op craze has gotten so insane," says Mr. Fischbein.
>
> He compares the heavily leveraged financing burdening some sponsors to the troubles that have plagued many companies purchased in leveraged buyouts.

* *

Budget crises are hitting the states with particular emphasis on New England. Before you buy muni bonds willy-nilly, study this rundown:

Northeast Budget Squeeze

The struggle to stay out of the red is a dominant political issue in all the Northeastern states.

State	State budget for current budget cycle (in billions)	Possible deficit (in millions)
Connecticut	$6.8	$125
Maine	$3.1	$100
Massachusetts	$12.0	$500
New Jersey	$17.1	$250 to $500
New York	$47.0	$2,000
New Hampshire	$1.6	$80
Rhode Island	$2.0	$50 to $100
Vermont	$1.2	$70

Source for state budgets: respective state governor's offices

* *

"America is great because her people are good. If the American people cease to be good, America will cease to be great." Words from famous historian de Tocqueville, written in 1835. Russell comment: I have puzzled over this quote. And I wonder -- with drugs everywhere, crime rampant, perpetual deficits and debts, neverending lies about federal finances, a million teen-agers pregnant every year, money-hungry businessmen and politicians and persistent inflation -- is this nation still "good"? Anyway, I wonder.

* *

With the three-for-one split in DuPont, the divisor for the Dow drops to about 0.5. This means that if every stock in the Dow rallied one point, the Dow would advance 60 points. Thus, super-

volatility is coming into the senior Average, and of course it's increased even more by program trading.

* *

Wall Street's lawyers put together the LBO and takeover deals of the 1980s. Now that many of those deals are falling apart, the lawyers have a new bonanza -- handling the bankruptcies of the '90s. Best guess for the Campeau mess -- the legal (and accountant) fees could go up to or over $100 million.

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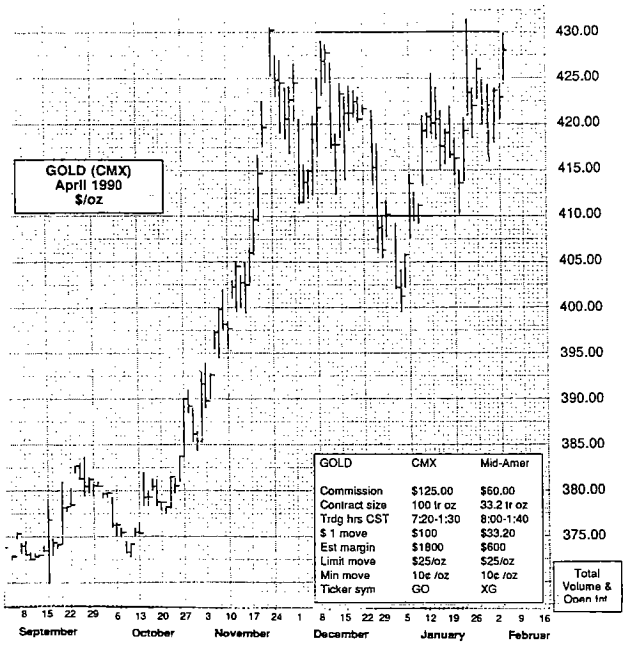
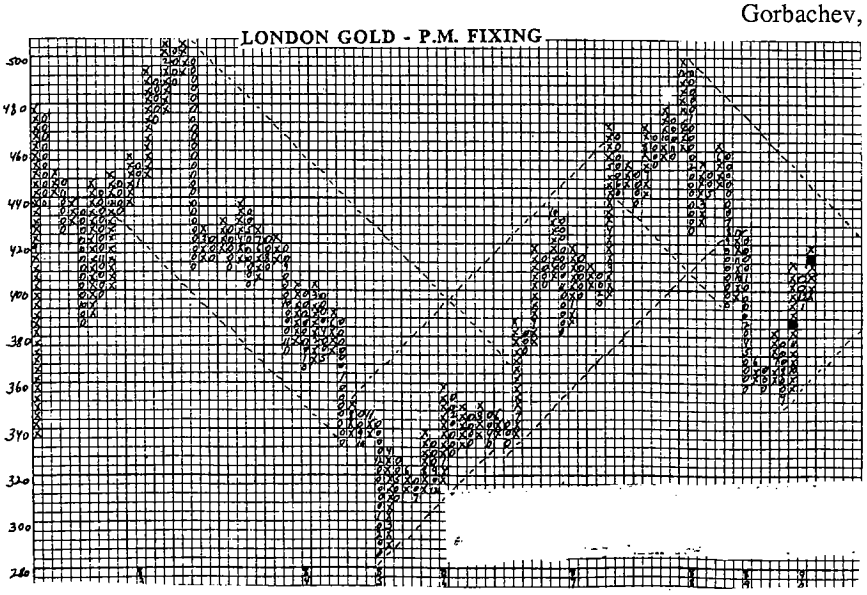
According to the authoritative *Women's Wear Daily*, the department store as we know it may go the way of the dinosaur. Taking its place will be specialty shops and chains along with specialty department stores such as Nordstroms.

GOLD: The point & figure chart of gold (London, second fix) looks good. Since its September low of 356, gold has given two buy signals, and these are shown via the two solid black boxes. The first buy signal came at 388 in December. A second buy signal occurred when London gold hit 416 in January.

The next important target would be to get spot gold above the 428 box, and even more important would be a gold rally above the declining trendline (A on chart). To get above trendline A gold would have to rise to 452.



NEXT MAILING: Feb. 21

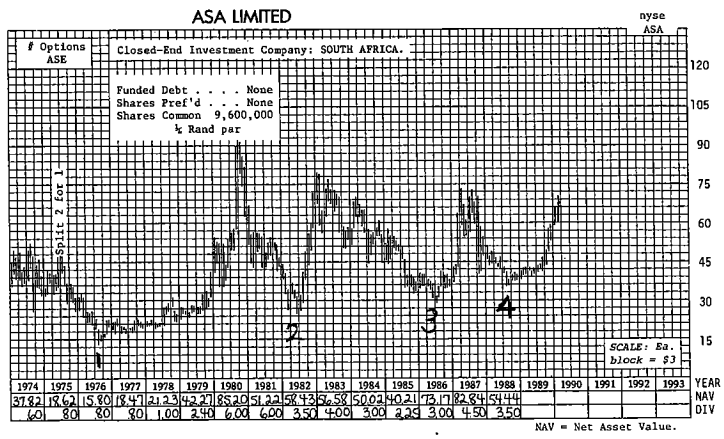


A different view of gold is provided by this *Dunn & Hargitt* daily bar chart of the April gold contract. Here we see the big surge from the October low of 370 to the November high of 430. Gold then consolidated in the 410-430 range. But in December a sudden plunge below the 410 level served to knock all the queasy holders out of the metal (and, of course, many margins on the CMX contracts were hit). Gold stayed below 410 for only four days, then rallied back into the 410-430 consolidation zone.

As this is written, gold is still fluctuating in its main 410-430 trading range. The level to watch is 430 on the April contract. If gold goes above 430, look for a rapid rise to the 450 level, basis April.

On February 1, President de Klerk announced that belonging to any particular political party was no longer reason for Africans to be jailed. In other words, you can belong to an opposition party in S. Africa and not be picked up by the police. This represents a huge plus in the gradual policy of getting rid of apartheid. On the news, S. African stocks popped, with the bellwether ASA climbing above 68 to a new multi-year high. On February 5, ASA rallied further, above 69. I have recommended ASA a number of times, but the premium above net assets is now growing close.

This monthly chart (courtesy of *Horsey*) shows you what has been happening to ASA -- note the series of four major rising bottoms (numbered on the chart). This indicates long-term accumulation, even while most of the world was bad-mouthing both gold and S. Africa. The next upside target for ASA is 75, then 82, and finally the all-time high just above 90.



Even Later Notes: What's happening in Russia, I believe, represents the first time in history that a party in command has willingly (without a bloody revolution) relinquished its power. Here's my opinion of what is happening -- Gorbachev perceived that communism simply was not working, it was a disaster. Gorbachev, a patriot, had to decide between the survival of the Communist Party and the survival of Russia itself. He picked Russia. He set liberalization in motion. Events piled on events. The unraveling took on a life of its own. Did it get out of hand? Did it overwhelm a shell-shocked communist leadership? I think it did. And it still is. Amazing, unbelievable.

Next: I have been talking for years about the outrageous buildup of debts and deficits in the US. More recently I warned that this debt-building, in a nation which supplies the world's reserve currency, was fraught with danger. The danger is the rest of the world will ultimately give up on the US and the dollar and move to other safer currencies. I believe we are seeing the early stages of this process now. Where does it show? It shows in the decline of the dollar and the costly and frightening slide in bonds.

Confirming my views is a MUST READ article published in the February 5 *Barron's* (page 73) entitled "Is the Dollar's Global Role Threatened?"